

2015

Health Savings Account Guide

GLOSSARY

Allowable charge (or allowed amount) The amount that the health plan has agreed to pay to health plan providers (such as your doctor or a hospital) for covered services.

Annual out-of-pocket maximum The maximum amount you are required to pay out-of-pocket each plan year for covered services that are included in the out-of-pocket maximum. Once the amounts you have paid total the out-of-pocket maximum, you pay nothing for those covered services for the remainder of the plan year.

Billed amount The total amount that a provider charges for rendered services, which may be greater than the allowable charge.

Coinsurance The percentage of the allowable charge that you are responsible for paying when you receive certain covered health care services. Coinsurance varies according to your plan and does not apply toward the deductible. However, it does count toward your annual out-of-pocket maximum.

Copayment (or copay) A fixed amount you pay each time you receive certain covered health care services or prescription drugs. Copayments vary depending on your plan and do not count toward the deductible. However, they do count toward your annual out-of-pocket maximum.

Deductible The set amount you must pay each plan year for covered medical services that are subject to the deductible before the health plan begins to pay its share. Not all services may be applied to the deductible. Deductibles vary, depending on the plan you have, so read your *Evidence of Coverage* to learn about your plan.

WHAT IS A HEALTH SAVINGS ACCOUNT?¹

In general, a health savings account (HSA) is a fund from which you can withdraw money to pay for qualified medical expenses. It works like a savings account in conjunction with your HSA-qualified deductible HMO plan. Your account can be funded over time or all at once with:

- pretax deductions from your paycheck (if your employer participates),
- tax-deductible contributions you make directly to the account,
- contributions from a third party, or
- any combination of the above.

The federal government sets the limit for how much you can contribute each year.²

You can withdraw the money from your HSA, tax-free, now or in the future, to pay for qualified medical expenses as defined in federal guidelines. You can grow the account and use the money after you retire. (Various investment options are available to help your account grow.³) Any investment earnings and funds in an HSA are not considered part of your earnings and are tax-free as long as they're used for qualified medical expenses. However, if you use HSA funds for other reasons, the amount you withdraw will be subject to income tax and may be subject to additional penalty tax. A medical expense is not a qualified medical expense if you receive reimbursement for it under insurance coverage. Also, if an expense is paid for or reimbursed by the individual's HSA account, the expense cannot be included for purposes of determining itemized tax deductions.

No matter when you choose to use it, the money in your HSA is yours. Whatever you don't spend carries over to the next year, and you can take it with you if you change jobs or health plans.

¹ This brochure includes general information about HSAs, including opening an account, eligibility, and tax and other advantages. Kaiser Permanente does not provide or administer financial products, including HSAs, and does not offer financial, tax, or investment advice. Members are responsible for their own investment decisions. If a member uses his or her HSA to pay for something other than a qualified medical expense, the expenditure is subject to tax and, for individuals who are not disabled or over age 65, a tax penalty. Tax references in this brochure relate to federal income tax only. The tax treatment of health savings account contributions and distributions under state income tax laws differ from the federal tax treatment. Consult with your financial or tax adviser for more information.

² For more information, refer to IRS Publication 969, *Medical and Dental Expenses*, available online at [irs.gov/publications](https://www.irs.gov/publications) or by calling **1-800-829-3676**. Kaiser Permanente is not responsible for the content or policies of external Internet sites.

³ Investment losses may occur with HSA accounts. Earnings vary depending on the type of investment plan you choose and/or the HSA provider you choose.

OTHER ADVANTAGES OF AN HSA INCLUDE:

- **Portability:** If you change employers, you can take your HSA with you. If you change your health plan to a non-HSA-qualified plan and have some funds left in your HSA, you can't contribute to the account, but you can keep using the money.
- **Roll over:** You can roll over amounts from one HSA to another. A rollover contribution is not included in your income, is not deductible, and does not reduce your contribution limit.
- **Control:** You're in charge. You decide how to invest your money. You decide when to put the money in and when to take it out.
- **Retirement savings:** The money in your account can be invested through the institution where you open it. After age 65, you can use the funds, taxed at your ordinary income rate, for any reason, without penalties.
- **Flexibility:** You can use the money in your HSA to pay for qualified medical expenses, even those your deductible plan does not cover. While the funds in an HSA can be withdrawn for any reason, your tax advantages are maximized when you use the funds exclusively for qualified medical expenses. If you are under age 65 when you withdraw your funds for nonqualified purposes, you will pay income tax and a penalty.



WHO IS ELIGIBLE TO OPEN AN HSA?

You must be enrolled in an HSA-qualified deductible HMO plan to be eligible for an HSA. Additionally:

- You cannot be insured by another health plan that is not HSA-qualified and that covers the first dollar expenses prior to the deductible.
- You must not be enrolled in Medicare.
- You cannot be claimed as a dependent on someone else's tax return.
- You must not have received Veteran's Administration medical benefits during the most recent three months.

For more information on eligibility, visit www.irs.gov/pub/irs-pdf/p969.pdf.⁴

SAMPLE SITUATIONS

How an HSA-qualified plan works for an individual or family covered by Kaiser Permanente⁵

Ben Olson is self-employed and purchases health care coverage for himself and his family from Kaiser Permanente. He chooses the Kaiser Permanente Silver 1750/25%/HSA Plan for Individuals and Families, a plan option available to those who do not have access to coverage from an employer.

Ben and his wife, Heather, know that even with Ben's health care benefits, paying for health care coverage for a family can be costly and unpredictable. Some years, the family sees the doctor rarely. Other years, their two very active boys, Jason, 8 and Matt, 10, seem to be in and out of the doctor's office (and urgent care) all the time. That's why when they join their Kaiser Permanente plan, they also decide to open an HSA account to help pay for their medical expenses. HSA funds they don't spend will roll over to the next year when they may need it. They open an HSA and contribute \$6,650, the 2015 annual maximum allowed by federal law.

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⁵ Examples are for illustrative purposes only. Individual situations will vary depending on the specifics of the health care plan, individual contributions, and other factors.

The Olsons' plan: Silver 1750/25%/HSA Plan

- \$3,500 family deductible
- \$10,000 family out-of-pocket maximum
- No charge for preventive care, which is not subject to the deductible
- 25 percent coinsurance after deductible for inpatient services, outpatient surgery, primary care and specialty care office visits, diagnostic laboratory, and radiology services

How this plan works for them

During the year (and after a few more trips to urgent care), the Olson family's combined health care expenses total \$5,000. Because they surpass their family deductible, they only pay full charges for the first \$3,500. They then pay applicable coinsurance for covered services for the rest of the plan year. Because the Olsons pay their qualified medical expenses from their HSA, what they spend is tax deductible—and that saves them money. At the end of the year, the Olsons have \$1,650 of their original contribution left in their HSA, plus the earned interest, a total sum they roll over. The next year, they can contribute up to the annual federal family maximum again and build their savings tax free.

Doing the Olson's math:

- \$6,650 Family's contribution to their HSA
- Minus \$5,000 – Amount of HSA funds spent on qualified health care expenses
- Equals \$1,650 – Amount in their HSA that rolls over to next year (plus the earned interest)

How an HSA-qualified plan works for an individual or family with health care benefits provided by an employer⁶

Alicia has health care benefits through her employer. She is enrolled in a Kaiser Permanente \$2,500 Deductible/20% Plan with an HSA option. She opens an HSA with her employer's preferred HSA administrator and contributes the 2015 annual federal individual maximum of \$3,350. Although not all employers contribute to HSAs, Alicia's employer contributes \$1,000 per year to her HSA to help pay for medical expenses.

Alicia's plan: \$2,500 Deductible/20% Plan with HSA Option

- \$2,500 individual deductible
- \$5,000 individual out-of-pocket maximum
- No charge for preventive care, which is not subject to the deductible
- 20% coinsurance for primary care office visits, which she pays after her deductible is met

How this plan works for her

During the year, Alicia has qualified health care expenses of \$1,000. Because she wants to build her HSA quickly, she decides to pay these expenses out-of-pocket and roll over the entire \$4,350 to the next year, when she again plans to contribute the federal maximum to her account. Alicia's HSA helps save tax-deductible dollars to pay for future qualified medical expenses and earn interest. When Alicia reaches age 65, she can continue to use the funds tax and penalty free for qualified medical expenses. Or she can use them for anything she wants, taxed at her income level, without penalty.

Doing Alicia's math:

- \$3,350 personal contribution
- \$1,000 employer contribution
- Minus \$0 – Amount of HSA funds spent on qualified health care expenses
- Equals \$4,350 – Amount that will roll over to next year (plus any earned interest)

⁶ Examples are for illustrative purposes only. Individual situations will vary depending on the specifics of the health care plan, individual contributions, and other factors.

SETTING UP AN HSA

Enrolled in	You can open	Where
HSA-qualified deductible HMO plan through an employer	HSA	Any eligible financial institution that offers HSAs. Check with your health benefits manager to see if your employer recommends or requires you to use a particular HSA financial administrator.
HSA-qualified deductible HMO plan for individuals or families (not through an employer)	HSA	Any eligible financial institution that offers HSAs

Once you have an HSA, you can begin contributing tax-free dollars and use them to pay for qualified medical expenses.

If your employer offers an HSA to you, speak to your health benefits manager about how to set up your HSA account.

CONTRIBUTING TO YOUR HSA

Contribution amounts

The federal government sets the limit for how much you can contribute each year.

For 2015, eligible individuals with self-only coverage can contribute up to \$3,350 and those with family coverage can contribute up to \$6,650. This maximum is adjusted annually for inflation.

Contributions can be made using pre-tax or post-tax payroll deductions, or you can make tax-deductible contributions directly to your account. Contributions, other than employer contributions, are deductible on your tax return whether or not you itemize deductions. For more information, please consult with your financial or tax adviser.

Contributors to your account

You, your family members, your employer, and others are all permitted to contribute to your HSA. The same total annual limits on the contributions made to your account apply regardless of who makes the contributions. Contributions on behalf of another family member are also deductible (regardless of whether the person contributing itemizes his or her taxes).

When you can make contributions

At the beginning of the year, you can contribute as much as you'd like to your HSA, up to the applicable limit. You may be required to make a corrective distribution later in the year if your eligibility status changes during that year (for example, if you change from family to individual coverage).

HSA contributions must be made for a specific year, on or before the due date (without extensions) for filing tax returns for that year.

What to do if your coverage starts in the middle of the plan year

If you become covered in the middle of the year, you may still contribute up to the federally set maximum contribution amount for that year. However, you must be enrolled in an HSA-qualified deductible plan at least for the full month of December in the year you wish to contribute to your HSA. You must also remain enrolled in an HSA-qualified deductible plan for the full plan year following your mid-year enrollment or your extra contribution above the prorated amount will be included in your taxable income, and you will be subject to an additional penalty tax.

Catch-up contributions

If you are an eligible individual who is age 55 or older, you can make an additional contribution of \$1,000 in 2015. For more information about HSAs, go to www.treasury.gov/resource-center/faqs/Taxes/Pages/Health-Savings-Accounts.aspx.⁷

QUALIFIED MEDICAL EXPENSES

A qualified medical expense is an expense defined under Internal Revenue Code Section 213(d), for which you may be reimbursed with funds from your HSA. A medical expense is not a qualified medical expense if you receive reimbursement for it under insurance coverage. In addition, if an expense is paid for or reimbursed by the individual's HSA account, it cannot be included for purposes of determining itemized tax deductions.

For a list of qualified medical expenses, refer to IRS Publication 502, Medical and Dental Expenses, available online at www.irs.gov/publications⁸ or by calling **1-800-829-3676**.

GO ONLINE

Our convenient online calculators on kp.org/treatmentestimates estimate and manage the value, costs, and tax savings of your HSA account.

Please visit kp.org/deductibleplans for more information.

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WHOM TO CALL

For more information about Kaiser Permanente or the HSA-Qualified Deductible HMO Plan, call Member Services, Monday through Friday, 7 a.m.–7 p.m.

- **404-261-2590** (local)
- **1-888-865-5813** (long distance)
- **711** (TTY)

For questions about your HSA account, please call your HSA administrator.





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kp.org/deductibleplans